CHAPTER - 2
INTERATIONAL FACTORING:
CONCEPTUAL FRAMEWORK

2.1 Introduction

International trade encompasses commodity and financial transactions across the frontiers of national boundaries. Besides normal credit risks on the debtors associated with any trade transaction, the additional concept of country or sovereign risk comes in play in respect of such business. Sovereign risk in international business is a fairly broad concept which is usually divided into three broad categories:¹

(i) Transaction Risk which is linked to a specific transaction that involves a specific amount and is tied to a specific time frame, such as an export sale on six month draft terms.

(ii) Translation Risk which stems from the obligation of multinational companies regularly to translate foreign currency assets and liabilities into the parent company’s accounting currency, a process that can give rise to book keeping gains and losses.

(iii) **Economic Risk** which in the broadest sense encompasses all changes in a company’s international operating environment that generate real, economic gains or losses.

Besides the uniqueness of the country risks as stated above, the export credit itself is quite distinct from the domestic counterpart in several respects. The principal characteristics of export credit that distinguish it from the domestic sales finance are as follows:\(^{2}\)

(i) Longer time scales: for delivery, funds transfer and credit period.

(ii) Extra time and distance require terms which provide a security for the risks perceived.

(iii) The expectation of local credit terms for each market.

(iv) Competition from other countries having different money costs and government policies.

(v) International standard terminology.

This feeling of insecurity and risks involved in international transactions has, therefore, resulted in various methods of payment system, the most secured amidst them being known as **Advance Payment** or **Cash With Order** (CWO). Under this system, the exporter has received the advance payment along with the order, that is much before the

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goods have actually been shipped. This method, therefore, provides the highest degree of security to the exporter. Naturally, for the debtor, that is the importer, the situation is diametrically opposite, as he has to solely rely on the honesty and business integrity of the exporter. In a buyer's market operating today in the business world, this method is rarely operational as it implies extension of credit by the importer to the exporter.

The other two prevalent methods of receiving payment are through Bills of Exchange and Documentary Letters of Credit. In both the methods, the banking system is the important channel through which the transactions are normally carried out. Though advantageous to the sellers, secured to a certain extent, except the concept of clean bill of exchange (here shipping documents are not enclosed), usually in a competitive environment, debtors are not inclined to open letters of credit because of cost and time involved. Further, the entire mechanism of operations through letters of credit is gradually loosing its impact throughout the world primarily on account of what is known as Doctrine of Strict Compliance.

2.2 Role of International Factoring

In view of the above constraints, as stated in the earlier chapter, there has been a visible shift towards open-account transactions in international trade.

It is in the above backdrop that international factoring can play a very important role not only in providing finance but also rendering a package of services to the exporters. International factoring in this context can broadly be defined as an agreement
in which export receivables arising out of sale of goods/services are sold to a factor as a result of which the title to the goods/services represented by the said receivables passes on to the factor. Henceforth, the factor becomes responsible for all credit control, sales accounting and debt collection from the importer(s).

2.3 Advantages of International Factoring

The distinct advantages of a factoring transaction over the other methods of finance/facilities provided to an exporter can be summarised as under:\(^3\)

(i) Immediate finance upto a certain per cent (say 75-80%) of the eligible export receivables - This prepayment facility is available without any string of letters of credit - simply on the strength of the invoice(s) representing shipment of goods.

(ii) Credit checking of all the prospective debtors in importing countries, through the own database of the export factor or by taking assistance from his counterpart(s) in importing countries known as Import Factor or established credit rating agencies.

(iii) Maintenance of entire sales ledger of the exporter including undertaking asset management functions. Constant liaison is maintained with the

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debtor's in importing countries and, collections are affected in a diplomatic
but efficient manner, ensuring faster payment and saving in financial costs.

(iv) According bad debt protection upto full extent (100 per cent) on all
approved sales to agreed debtors and thus ensuring total predictability of
cash flows.

(v) Undertaking cover operations to minimise potential losses arising from
possible exchange rate fluctuations.

(vi) Efficient and fast communication system through letters, telex, telephone
or in person in the buyer's language and in line with the national business
practices, thus offering quick collection services.

(vii) Consultancy services in areas relating to special conditions and regulations
as applicable to the importing countries.

However, since there will always be two contracting parties (exporter and
importer) in international trade, the role of the factoring organisation is likely to alternate
between acting as either export factor or import factor, depending on the nature of
transaction. This means that an export factor will automatically become an import factor
in cases of imports within the country. Thus holistically, the terminology of international
factoring is often used which includes both export and import factoring. The distinct
advantage accruing to the importer is that he can import the goods/products within the
country without establishing any letters of credit.
2.4 Types of International Factoring

Depending upon the need of the exporter and his price bearing capacity, various forms of international factoring are in vogue, the principal amongst them being as follows:

(i) Two Factor System
(ii) Single Factoring System
(iii) Direct Export Factoring System
(iv) Direct Import Factoring System
(v) Back to Back Factoring System

2.4.1 Two Factor System

The transaction under this system is based on operation of two factoring companies in two different countries involving in all, four parties:

- Exporter
- Importer
- Export factor in the exporter’s country and
- Import factor in the importer’s country.

The mechanics of operation in such an arrangement works out as under:

(a) The exporter approaches the export factor with various business information which, inter alia, may include (i) Nature of business, (ii) Names and addresses of the debtors in various importing countries, (iii) Annual expected export turnover to each country, (iv) Number of
invoices/credit notes per country, (v) Payment terms, (vi) Line of credit required for each debtor.

(b) Based on the information furnished, the export factor would contact his counterpart (import factor) in different countries to assess the creditworthiness of the various debtors.

(c) The import factor makes a preliminary assessment as to his ability to give credit cover to the principal debtors. If the impression turns out to be negative, the matter is referred back to the export factor for reconsideration of the amount of coverage or deliberations with the exporter for choosing alternate buyers. However, if the result of investigation by the import factor is positive, he would indicate the quantum of coverage, coupled with required commission and other conditions for cooperation.

(d) Based on the positive response of the import factor, the factoring agreement is signed between the exporter and export factor.

(e) Goods are sent by the exporter to the importer along with the original invoice which includes an assignment clause stipulating that the payment must be made to the import factor. Simultaneously, two copies of the invoice along with notification of the debt are sent to the export factor. At this stage, prepayment up to an agreed per cent (say 80-85%) of the invoice(s) is made to the exporter by the export factor.
A copy of invoice is sent by the export factor to his counterpart, the import factor. Henceforth, the responsibilities relating to book keeping and collection of debts remain vested with the import factor.

Having collected the debts, the proceeds are remitted by the import factor to his counterpart, the export factor. In case the payments are not received from any of the debtor(s) at the end of previously agreed period (normally 90 days from the due date), on account of financial inability of the debtor concerned, the import factor has to pay the amount of the invoice to his export counterpart from out of his own funds. However, this obligation will not apply in case of any dispute regarding quality, quantity, terms and conditions of supply etc. If any dispute arises, the same has to be settled between the parties concerned through the good offices of the factoring companies or otherwise legal action may have to be initiated by the import factor based on the instructions of the exporter/export factor.

On receipt of the proceeds of the debts realised, the retention held (say 15 to 20%) is released to the exporter. Entire factoring fee is debited to the exporter’s account and the export factor remits the mutually agreed commission to his importing counterpart.

Thus, in brief, in the above mechanism, the export factor undertakes the **Exporter’s - risk** whereas the **Importer’s - risk** is taken care of by the import factor.
The mechanism of two the factor system is shown in the figure 2.1.

The main functions of the export factor relate to:

- Assessment of the financial strength of the exporter.
- Prepayment to the exporter after proper documentation and regular audit and post sanction control.
- Follow up with the import factor.
- Sharing of commission with the import factor.
The import factor is primarily engaged in the areas of:

- Maintaining books of the exporter in respect of sales to the debtors of his country.
- Collection of debts from the importers and remitting proceeds of the same to the export factor.
- Providing credit protection in case of financial inability on the part of any of the debtors.

The two factor system is by all means the best mode of providing the factoring facilities to a prospective exporter. However, the system is also fraught with certain disadvantages like:

- Higher pricing structure.
- Delay in operations like credit decision, remittance of fund, etc. due to involvement of many parties.

### 2.4.2 Single Factoring System

With a view to obviating the constraints in the two factor system, as mentioned above, a variation by way of a single factoring has been introduced by some of the factoring companies, primarily in Factors Chain International (FCI) group. Under this system, a special agreement is signed between the two factoring companies in the exporting and importing countries for single factoring, whereby as in the two factor system, the credit cover is provided by the import factor. However, prepayment, book keeping and collection responsibilities, prima facie, remain vested with the export factor. If the export factor is not in a position to realise any debt within 60 days from the due date, he requests the importing counterpart to undertake the collection responsibility.
simultaneously informing the defaulting debtor about the assignment of the debt to the latter. It is now the responsibility of the import factor to continue the collection endeavour and initiate legal proceeding, if necessary. In case the debt remains outstanding for a period exceeding 90 days from the due date, owing to financial inability on part of the importer, the import factor has to remit, by virtue of his undertaking to cover the credit risk, the amount to the export factor.

Pricing under this system is much lower compared to that of the two factor system. The variation is introduced up to the extent that the role of the import factor as a collection agency starts if there is a potential threat of non-recovery. The import factor does not maintain any book of account of the exporter but acts only on the information by the export factor. Thus in order to make the mechanism effective, a perfect coordination and cooperation based on mutual trust and faith between the two factoring companies must exist.

2.4.3 Direct Export Factoring System

Under this system, only one factoring company is involved— the export factor, which provides all services namely,

- Finance to the exporter.
- Maintenance of sales ledger and collection of debts from the importers.
- Credit protection in case of financial inability on part of any of the importers.
- Consultancy service.

The mechanics of operation of the direct export factoring system is shown in figure 2.2

Figure 2.2
Mechanics of Direct Export Factoring
The basic advantage of this system is the obvious reduction in pricing structure coupled with uniform and quick service. However, the professional standard of the export factor should be of a very high degree as he has to collect the dues directly from the various buyers located in different countries. Knowledge of import rules and regulations, perfect updated data base of the importers and languages of the countries are essential pre-requisite for making such system a success. Lombard Natwest, subsidiary of the Natwest Bank, in the United Kingdom is a unique example of direct export factor operating in a very efficient manner. The credit collection department of the above company comprises of credit controllers from various parts of the world having a thorough knowledge about the systems, procedures, culture and languages of different countries.

2.4.4 Direct Import Factoring System

Under this system, the exporter instead of taking help from the two factor system or direct export factor system in his own country, will choose to work with a factor of the importing country. The factoring agreement is executed between the exporter and the import factor pursuant to which the invoices representing the shipped goods are assigned to the latter. The import factor is responsible for sales ledger administration, collection of debts and providing bad debt protection upto the agreed level of risk cover. The disadvantage of the system is the lack of proximity between the exporter and the import factor, which may result in unnecessary disputes at a later stage. Nevertheless, the system
was very much in vogue till recently, especially in respect of import of goods from East European countries like Poland, Hungary, Yugoslavia, East Germany etc. to the Western Europe. However, the political revolution taking place in the Eastern European countries resulting into more open economies may shift the factoring operations, henceforth, towards the two factor system. The operational mechanics of direct the import factoring system is shown in the figure 2.3.

Figure 2.3

Mechanics of Direct Import Factoring

[Diagram showing the mechanics of direct import factoring with stages labeled: Stage I, Stage II, Stage III, Stage IV, Stage V]
2.4.5 Back to Back Factoring System

This system is normally applicable in respect of sales by an exporter usually a large exporting company, to its subsidiary or distributor or selling agent abroad. Normally factoring arrangements, as described earlier, may not take care of such situations as the exporter and the importer are part of the same group of companies. Back to back factoring is a useful device under such situations. The mechanics of operation of such an arrangement are as under:

(i) The exporter executes factoring agreement with an export factor concerning his sales to the subsidiary.

(ii) The import factor simultaneously signs a domestic factoring agreement with a subsidiary of the exporter.

(iii) Backed by the domestic subsidiary’s invoices, the import factor can provide security to the export factor for the advances that he will make to the exporter. In some cases, the export factor may even be able to take a direct charge on the receivables of the subsidiary.

(iv) The exporter assigns his invoices on the subsidiary via the export factor direct to the import factor.

(v) The subsidiary assigns its receivables to the import factor with or without credit risk coverage.

(vi) The export factor makes the prepayment to the parent company.
On receipt of the payment from the debtor(s) of the subsidiary, the import factor distributes the funds according to the instructions from the export factor.

The export factor settles the remainder with the exporter.

Besides the advantages normally accruing under factoring arrangements, this form of factoring makes it possible for a seller to obtain finance against his export account receivables which could not normally be used as security for advances. But, at the same time, back to back factoring is a relatively complicated service which requires thorough knowledge of the legal situation in the countries concerned.

However, the types of international factoring described above are only created out of convention. They have no prescriptive or directive back-up. As such, many other variations, depending on the needs of the situation, can also be contemplated.

2.5 Legal Framework

Legal framework in respect of any financial services activity is a very important pre-requisite for making it a successful experiment. In the following paragraphs, legal framework as obtaining today, in respect of international factoring is described.

Factoring has been defined in different countries in various ways. Barring United States (by way of Uniform Commercial Code) and to certain extent in Italy, no legal framework exists in respect of factoring. However, since international factoring encompasses the trade transactions between two different nations, framing of some
uniform rules is required in order to avoid disputes and complications. The International Institute for the Unification of Private Laws, more commonly known as UNIDROIT, was set up by the Italian government under the auspices of League of Nations with the object of promoting harmonisation of commercial laws. The first attempt with regard to harmonisation in factoring laws was undertaken in 1974 by the Governing Council of Unidroit which recommended the preparation of a preliminary study for examining the desirability of drawing up uniform rules for international factoring. Subsequently, during 1979, a study group was set up to draft uniform rules for international factoring agreements. In May 1983, the Governing Council approved the draft rules formulated by the study group and communicated the text together with an explanatory report prepared by the Secretariat to the governments of the member states. A committee of governmental experts was then set up to prepare a draft convention encapsulating the uniform rules. Following a number of sessions, a revised text was presented to the Unidroit diplomatic conference held at Ottawa, Canada in May 1988, where it was accepted with minor changes.

The Unidroit Convention on International Factoring contains 23 articles broadly bifurcated into four chapters, namely, (i) sphere of application and general provisions, (ii) title of credit

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(ii)rights and duties of the parties, (iii)subsequent assignments, and (iv)final provisions.

Further, it was made very clear that the Convention did not encompass the whole gamut of factoring. Three main limitations in this regard are as follows:

(i) It applies only to international factoring that is where the trade transactions involve sellers and buyers located in two different countries. This means that the draft legal framework does not cover domestic factoring.

(ii) The rules made under the Convention do not deal with the validity of the factoring agreement. This implies that they endeavour to interfere as little as possible with contractual relationship between the supplier and factor inter se.

(iii) The rules do not include provisions to deal with cases of conflicting claims between the factor and the third parties over receivables. It was, therefore, decided to leave the whole problem of priorities between the factor and third parties to be decided by the applicable national laws.

A transcript of the draft rules under Unidroit Convention on international factoring is given in the Appendix IV. The broad aspects along with the comments on the main articles of the Convention are discussed in the following paragraphs.
2.5.1 Chapter-I - Sphere of Application and General Provisions

Article 1 defines the factoring contract along with its scope. Sub paragraph (a) of the Article 1 (2) makes it clear that a factoring contract for the purpose of the Convention is constituted by the supplier's assignments to the factor of the receivables arising from a contract between the supplier and his customer. It also emphasises that the receivables must arise from contracts for sale of goods or for supply of services, which must be concluded between the supplier and his customer(s) in the normal course of the business. In terms of Vienna Convention of Contracts for the International Sale of Goods, the consumer transactions, that is "the sale of goods bought for the personal, family or household use" are explicitly excluded.

Article 1(2) (b) specifies that for the factoring contract to conform to the Convention, the factor must perform at least two of the following functions:

(i) Finance to the supplier including loans and advance payments.
(ii) Maintenance of accounts relating to the receivables.
(iii) Collection of receivables.
(iv) Protection against default in payment by debtors.

Article 1 (2) (c) states that the notice of assignment of the receivables must be given to the debtors. This provision aims to protect the interest of the factor arising from disowning of the liability by the debtors.
Article 1 (3) provides that references of "goods" and "sale of goods" include services and supply of services.

Article 1 (4) clarifies the meaning of the word "writing". As notice was regarded as an essential ingredient to complete the process of factoring contract, it was intended to deal clearly as to how notice is to be given. The article explicitly states that:

(i) Notice need not be signed.
(ii) It must identify by whom or in whose name it is given.
(iii) Notice in writing includes but is not limited to any specific form.
(iv) A notice in writing is given when it is received by the addressee.

Under Article 2, for the applicability of the Convention, two tests must be satisfied. First, the transaction must be international; Second, it must have a connection with a contracting state.

Article 2 (1) specifies that for the purpose of testing a factoring contract as an international one, the supplier and the debtor should have their places of business in two different states. This is in consonance with article 1 (1) of the Vienna Sales Convention.

The connection with a contracting state may be satisfied in one of the two ways; (i) when the supplier, the debtor and the factor all have their places of business in contracting states or (ii) when both the contract of sale of goods and the factoring contract are governed by the law of a contracting state.
Article 2 (2) states that with reference to the clause "party's place of business", if it has more than one place of business, it will mean the place which has the closest relationship to the relevant contract and its performance having regard to the circumstances known to or contemplated by the parties at any time before or at the conclusion of that contract. This statement is also in consonance with the spirit of Vienna Sales Convention.

**Article 3** determines the extent to which the parties involved in a factoring transaction may exclude the application of the Convention and the circumstances under which such exclusions can occur.

Article 3 (1) (a) permits the parties to a factoring contract that is, the supplier and the factor, to mutually agree not to subject them to the legal framework of the Convention.

Article 3 (1) (b) also allows the parties to the contract of sale of goods that is, the supplier and the debtor, to mutually agree that the framework of the Convention would not be applicable as regards the contract entered into between them. However, with a view to protecting the interest of the factor, it is stipulated that this exclusion shall operate
as regards the debts arising at or after the time the factor has been given notice in writing of such exclusion.

In factoring transactions, two separate contracts are involved, one between the supplier and his debtor and the other between the factor and the supplier. There is, thus, an existence of a third party in each of these contracts. Therefore, Article 3(2) provides that any exclusion mentioned above may be made applicable as the Convention as a whole and not in parts.

**Article 4** concerns with the rules of interpretation to be applied in respect of the Convention.

Article 4(1) endeavours to promote the concept of uniformity in its applicability because of its international character. It also stresses the need of observance of good faith in international trade in order to avoid the legislative or judicial attempts to defeat the trade harmonisation efforts by having different approaches to interpretations.

Article 4(2) relates to the issues and questions which are not expressly settled in the Convention. This article states that such issues are to be settled in conformity with the general principles of law on which the Convention is based. In the absence of such principles, these issues are to be settled in conformity with the law applicable by virtue of rules of private international law.
2.5.2 Chapter II - Rights and Duties of the Parties

Article 5 specifically states the nature of receivables, both existing and future, that can be assigned by the supplier to the factor. Under Article 5(a), the receivables must be described by the factoring contract in such a way that those subject to the assignment can be identified without difficulty at the time at which the contract is concluded with regard to the receivables already in existence and, in respect of future receivables, at the time when they come into existence.

Article 5(b) specifically states that there is no need for any new act of transfer for future receivables.

Article 6 The Ban on Assignment clause has been causing unprecedented hindrance to the cause of growth of factoring. This implies that the buyer of the goods/services explicitly prohibits the rights of the supplier/seller to assign his rights to a third party including a factor. This article with a view to promoting the cause of international factoring endeavours to obviate this legal obstacle.

Article 6(1) states that the assignment of the receivables by the supplier to the factor shall be effective notwithstanding any agreement between the supplier and the debtor prohibiting such assignment. This is in consonance with the provisions of Uniform Commercial Code (UCC) as applicable in the United States. However, some compromises
were affected in the subsequent clauses. For instance, under Article 6(2), such assignment shall not be effective against a debtor who has his place of business in a contracting state that has made a declaration under article 18 of the Convention. Further, according to Article 6(3), the assignment does not affect obligations of good faith owed by the supplier to the debtor or any liability of the supplier to the debtor in respect of an assignment made in breach of the terms of contract of sale of goods.

**Article 7** allows the factoring contract to provide for the transfer to the factor of the supplier’s rights deriving from the contract of sale of goods. This transfer can take place in two ways. The parties can agree that the assignment of receivables will automatically carry with it any or all of the supplier’s rights deriving from the contract of sales of goods. It can also be stipulated that the transfer of such rights would take effect by a further special instrument.

**Article 8** stipulates the conditions under which the liability of the debtor crystallises towards making payment to the factor.

Article 8(1) states that the debtor should not have knowledge regarding any other person’s (other than the factor) superior rights to receive payment. Further, he must have
the notice in writing of the assignment. The manner and the contents of the said notice are contained in Articles 8(1)(a) to 8 (1)(c). These are as under:

(i) The notice must be given by the supplier or by the factor. However, since the privity of contract of debtor is with the supplier under contract of sale, notice if given by the factor, must have the supplier’s authority.

(ii) The notice must reasonably identify (a) the receivables that have been assigned, and (b) the factor to whom payment is required to be made.

(iii) The notice should relate to the receivables arising under a contract of sale made on or before the specified date when the notice is given.

Article 8(2) provides that payment by the debtor to the factor, if made according to the provisions of article 8(1), discharges the debtor from his liability.

Article 9 describes the extent of defences that may be put up by the debtor against the factor at the time when payment is claimed.

Article 9(1) provides that the debtor under such a situation may set up all the defences which he could have availed of, if such claim had been made by the supplier himself. Article 9(2) provides the right of set-off to a debtor in respect of claims existing against the supplier at the time he received the notice of assignment pursuant to article 8.
**Article 10** considers the position where the debtor has already fulfilled his obligation to make payment but has not received the consideration in that the supplier has failed to perform his obligations under the contract.

Article 10(1) provides that, without prejudice to the debtor’s rights under Article 9, non-performance or defective or late performance by the supplier, shall not by itself entitle the debtor to recover a sum paid by the debtor to the factor.

However, Article 10(2) provides for two exceptions to the general rule stated above. These apply only when the debtor has a right of recovery against the supplier.

Article 10 (2)(a) provides that the debtor may recover the sum from the factor if the latter has not discharged an obligation to make payment to the supplier in respect of the said receivables.

Article 10 (2)(b) is concerned with the situation when the factor had made payment to the supplier but he knew of the supplier’s non-performance or defective or late performance at the time of making such payment. Thus it is obvious that in such a situation, the factor will be held responsible for the risks arising from non-fulfilment or late fulfilment of the promises of the supplier.
Article 11 is concerned about the extent to which the Convention can apply to subsequent assignments. This is to be noted that for application of the Article 11, the relevant receivables must have previously been assigned by a supplier to a factor pursuant to a factoring contract governed by the Convention.

Article 11 (1)(a) provides that the rules set out in Articles 5 to 10 (with the exception of Articles 8-10 which are governed by Article 11 (1)(b) discussed below) will apply to any subsequent assignment of the receivables by the factor or by a subsequent assignee.

Article 11 (1)(b) stipulates that the provisions of Articles 8 to 10 shall apply as if the subsequent assignee were the factor. This implies that these articles (Articles 8 to 10) are to be kept in view very meticulously by the debtor before making payment (Article 8) or before setting up defence (Article 9) or establishing his rights against the supplier (Article 10).

For the purpose of notice, Article 11 (2) provides that notice to the debtor of the subsequent assignment also constitutes notice of assignment to the factor. This means that in a two factor system, two notices are not needed and only the notice of assignment from
the export factor to the import factor constitutes a valid notice to the debtors. This also implies that the debtor cannot ignore the claim made by the import factor on the mere technical ground that he was not given notice of the first assignment.

Article 12 provides that the Convention would not apply to a subsequent assignment which is prohibited by the factoring agreement. This clause is added to safeguard the interest of the parties against a fraudulent reassignment of receivables.

2.5.4 Chapter IV - Final Provisions

This chapter contains 11 articles (Articles 13-23) giving general provisions regarding ratification, acceptance, approval and denunciation of the contracting states. Article 15 stipulates that the Convention does not intend to prevail over any treaty which has already been or may be entered into. Regarding those contracting states which have two or more territorial units in which different laws are applicable, at the time of signature or ratification, such contracting states may declare that the Convention is to extend to all its territorial units or only to one or more of them. If a contracting state makes no declaration, the Convention is to extend to all territorial units of that state (Article 16). One of the important clauses is contained in Article 18 which stipulates that ban on assignment shall be valid if a contracting state makes a declaration in accordance with Article 6(2). Article 19 permits a state which has already made a declaration, to withdraw it at any time by a formal notification in writing addressed to the depository.
Article 20 specifically prohibits any reservation except those expressly authorised in the Convention. Article 22 also permits any contracting state to denounce the Convention at any time after the date on which it enters into force for that state. The Article 23 states that the Convention shall be deposited with the Government of Canada. It also stipulates the responsibilities of the Government of Canada in this regard towards providing various information to the member states who have signed or acceded to the Convention.

2.6 CONCLUSION

The above discussions imply that through the Unidroit Convention, an attempt has been made to rationalise the legal issues involved in international factoring transactions, barring the limitations as stated in earlier paragraphs. However, there are several other country-specific legal issues which must be analysed before international factoring is introduced. Some of these issues as applicable to Indian context are discussed in chapter - 8. However, there is no denying that pursuant to efforts towards harmonisation of international laws, international factoring as an alternate financial instrument has shown considerable progress the world over. In the next chapter, an attempt is made to review the global development of factoring with emphasis on a few select developed countries of the world.